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Arizona Corporation Commission
DOCKETED
DEC 11 2008
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TO: ARIZONA CORPORATION COMMISSION
FROM: The Solar Alliance
DATE: December 10th 2008
DOCKET NO: E-01933A-07-0594
RE: Solar Alliance Response to Staff Recommended Order and Opinion

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2008 DEC 11 P 4:40

The Solar Advocates appreciate the efforts of Commission Staff in drafting the Recommended Order and Opinion (ROO) for Tucson Electric Power (TEP). We feel that the ROO goes a long way toward creating a plan that insists on full compliance with REST mandates, while at the same time limiting unnecessary costs.

The Alliance generally supports the ROO and agrees with Commission Staff (Staff) that at this time there is not enough evidence to support making changes to increase the incentive levels as. The reasoning behind this belief becomes clear when one considers recent changes to the Federal Solar Investment Tax Credit which in the last three months has made the after-incentive price of a residential solar system significantly lower.

TEP will most likely not meet their 2008 goals for the Distributed Generation (DG) portion of the RES. While this is unfortunate, it is not necessarily an indicator that the goal is unreasonable, incentives are too low, or that TEP will not be able to meet their 2009 goals. Uncertainty over the extension of the federal investment tax credits likely played a large role in the shortfall of DG installations in 2008.

For much of the year DG non-residential solar and wind projects throughout the country were put on hold. Most solar installers, and many of their customers, believed that the federal tax incentives that provide a tax credit worth up to 30% of the total system cost were going to expire at the end of 2008. For that reason it was believed that non-residential solar systems had to be up and running by the end of the year to be eligible for the investment tax credit. For a large commercial solar system it can often be 6 months from inception to commissioning. For this reason after the middle of the year many solar installers simply quit doing non-residential systems because they did not believe they would be able to complete the systems in time for their clients to be eligible for the credit. This almost shut down non-residential solar development and, without question, negatively affected TEPs' ability to meet its non-residential and overall DG goals.

Ironically, renewal of the investment tax credit may have also hindered TEP in meeting its DG goals. When Congress passed the credit in October they also lifted the residential solar tax credit cap. Previously, purchasers of residential solar systems were eligible for no more than $2000 worth of tax credits; they are now, like non-residential customers, eligible for tax credits worth up to 30% of the total system cost. This is a dramatic increase in federal incentives and in some cases has cut the after-incentive price of residential solar in half. Unfortunately, only residential solar purchasers who commission their systems in 2009 can take advantage of the improved incentives. Accordingly, there is a powerful economic disincentive to commission systems in 2008 and there are currently large number of people who are either waiting until 2009 to purchase a system or our have installed a system and are waiting until the end of the year to turn it on. Obviously, inactive systems do not provide renewable energy credits to TEP. While non-residential solar is ramping back up, this timing issue has lead to a dramatic drop in the number of residential systems commissioned in Arizona, and across the country, in 2008. This drop will likely be followed by a rush to commission systems in 2009.

It is the intent of this analysis to suggest one primary change to the REST plan. The Alliance would like to see modifications to this plan that would relax the requirement that half of the DG energy production come from residential and half come from non-residential. This is reasonable as demand for non-residential and residential solar may vary from year to year. In fact, the Solar Alliance (as part of the Solar Advocates) supported this concept as part of our response to the staff report on APS' 2008 plan (April 3 2008 E- E-01345A-07-0468). Our recommended changes suggest removing the "hard" 50/50 residential non-residential split between the two categories.

The Alliance recommends that TEP should be required to get a minimum percentage from the residential and non-residential categories. This would allow, for instance, residential DG to meet 70% of the requirement one year, and 70% non-residential the next. This float would allow the Commission to avoid the practice of predicting the business model, "winners and losers." It is important to add that considering the current development of contracts to install residential solar as a standard feature on new homes, as well as the dramatic decrease in the price of residential solar as a result of the lifting of the federal tax incentive cap, it is likely that residential DG systems could very likely meet more than 50% of the total DG requirement.

We appreciate this opportunity to submit comments. Overall, as the various parties involved gain experience with the REST program, we feel that it is becoming a truly viable mechanism for meeting renewable energy goals in a manner responsible to the rate payers. We feel that if the above suggestions are implemented the conditions will be right for TEP to successfully` reach full compliance in 2009.

Respectfully submitted,

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